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ENTREPRENEUR OPTIMISM AND THE NEW VENTURE CREATION PROCESS

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ABSTRACT

By integrating two theoretical approaches to entrepreneurship research, the psychology of the entrepreneur and the entrepreneurship process, this paper proposes a new conceptual model examining entrepreneur behaviour and emotion across the new venture development process. Existing macro level research on the new venture creation process recognises the entrepreneur as a central agent in the process yet generally avoids, at each stage of the process, an examination of the micro level psychological experiences of the individual entrepreneur. Similarly, behavioural research examining entrepreneur individual differences has neglected to systematically explore the emotion and behaviour of the entrepreneur across the cycle of the new venture creation process. We propose a conceptual framework that integrates the exploitation phase of the new venture creation process with the psychological capital element of optimism and behaviour of the individual entrepreneur. Propositions for future research to facilitate deeper insight into the impact of entrepreneur behaviour and emotion on the new venture creation process and ultimately the success or failure of the new venture are offered.

INTRODUCTION

The failure rate of new ventures is reportedly as high as 55% (Knaup, 2005). Regrettably the extent of such failure is contrary to the importance and contribution that entrepreneurial activity has to the economic well being of society. Successful new ventures have been directly linked to 19% of economic growth (GEM, 2008), as well as being associated with indirect value chain influences such as the creation of employment. Accordingly, it is paramount that research attention focuses on exploring realistic ways to redress the failure rate of new ventures. Previous research has demonstrated that new ventures have a low rate of success because of the quality of the start-ups, the ability of the venture to meet realistic or sustainable growth objectives, and an inability to generate profits over a sustained period of time (Davidsson, Steffens, Gordon & Reynolds, 2008).

Arguably the new venture creation process is a complex interplay between the environment, the individual founder, the organisation, and the process adopted (Gartner, 1985). Nevertheless, within the context of such complexity, entrepreneurship theory and research has generally found that there is a close interconnection between the role of the founder or individual entrepreneur and the new venture's success or failure (Davidsson, et al., 2008). The scholarly field of entrepreneurship is an examination of "how, by whom, and with what effects opportunities to create future goods and services are discovered, evaluated, and exploited" (Shane and Venkataraman, 2000, p. 218). Importantly, this definition indicates that the field of entrepreneurship includes both an analysis of the entrepreneurial process as well as an analysis of the individuals who are enacting that process. However, theoretical models at present explore these important concepts separately. The current paper offers an integration of the entrepreneurial process with the emotions and behaviours of the individual entrepreneur, particularly in regard to the psychological element of over optimism.

The purpose of this paper is to establish a conceptual model to derive a set of research propositions examining the impact of the behaviour and emotion of the individual entrepreneur across the five stages of the exploitation phase of the new venture creation process. Shepherd (2011, p412) supports that a 'deeper understanding of the

entrepreneurial phenomenon’ would come from more investigation on the interplay between individual difference and decision making in an entrepreneurial context.

Although we recognise that there are a number of perspectives on the new venture creation process, we have anchored our conceptual model using the holistic macro perspective that has been captured in Shane and Venkataraman’s (2000) framework. This framework incorporates the elements of opportunity discovery, evaluation and exploitation to explain and predict the new venture creation phenomenon. Given that our focus is on the exploitation phase we have added granularity to the exploitation phase by incorporating stages theory into the model. Specifically we have adopted the approach used by Cardon et al. (2005) using the human lifecycle as the metaphor.

In contrast to the macro process model, examining entrepreneurship from a micro perspective provides explanations of entrepreneurial behaviour such as risk taking, focus intensity, and decision making through the lens of individual differences such optimism. This paper proposes an integrative conceptual model that draws together these two important foundations of entrepreneurship research. Specifically, the paper combines Shane and Venkataraman’s conceptual framework of the new venture creation process, focusing on the exploitation phase, with the individual differences surrounding the emotion and behaviour of the entrepreneur. In this paper entrepreneurial behaviour is anchored in the broader domain of positive psychology and the specific elements of Luthans, Youssef and Avolio’s (2007) psychological capital model incorporating the elements of efficacy, hope, resilience and optimism.

Defining the new venture creation process

“A new venture is the end result of the process of creating and organizing a new business that develops, produces, and markets products or services to satisfy unmet market needs for the purposes of profit and growth” (Chrisman, Bauerschmidt, & Hofer, 1998, p.6), with founders being the individual participants directly attributable to the formation of the

venture. Moreover, a new venture is often considered to be new until it reaches the stage described in many new venture lifecycle models as maturity (Chrisman, et al., 1999).

The process of new venture creation

Shane and Venkataraman (2000) proposed a model of entrepreneurship that identifies three distinct processes: the existence and discovery of entrepreneurial opportunities; the decision to exploit entrepreneurial opportunities; and modes of exploitation. Fundamentally they argued that in order to have entrepreneurship, opportunities needed to exist and be recognised or discovered. Once discovered, an explicit decision to develop the opportunity needs to occur, recognising that there are varying ways in which opportunity development can be enacted.

The establishment and development of new ventures is dynamic and non linear. Whilst Shane and Venkataraman's conceptual model suggest three distinct processes, the reality of new ventures is that these stages are intertwined and are often overlapping and occur in different sequences in the process as the opportunity and new venture develops.

Importantly our focus is on the exploitation phase, thereby concentrating on the execution aspects of the new venture as opposed to opportunity discovery and analysis. Stage theory has been used extensively in the literature to consider the distinct stages that ventures go through when they are growing and developing. Levie and Lichtenstein (2010) have identified 104 different stages models. They concluded that the only constant across all models is that "businesses tend to operate in some definable state for some period time" (Levie & Lichtenstein, 2010, p330).

Despite this viewpoint, we believe, that in respect to our research, stages theory provides a way of identifying distinct stages that these ventures move through during the exploitation phase, that may impact the level of optimism being displayed.

In reality there is a triangulation between the opportunity, the various resources that may be required and the team to make it happen. These distinct aspects demand that an

entrepreneur is sufficiently capable of maintaining and adopting a sufficient and appropriate level of management and focus on all three. Similarly, Shane and Venkataraman's conceptual framework focusing on entrepreneurship as a process maintains the entrepreneur as a central agent in the process through the discovery or recognition of the opportunity, the decision to exploit and develop the opportunity, and the ways in which the opportunity is able to be exploited. To be an entrepreneur requires an individual to take action (McMullin&Shepherd, 2006), to ensure that an opportunity recognised is acted upon to bring the business opportunity to some conclusion. Action requires individual intervention, thereby further emphasising the integration of the potential impact of the emotion and behaviour of the entrepreneur. Further support for the integration between individual difference and decision making in an entrepreneurial context, particularly around individual tasks and actions has been provided by Shepherd (2011). This has been further examined by Cardon et al. (2005) where the relational nature of entrepreneurship was further examined using a "parenthood metaphor" (p.23).

The following table adapted from Cardon et al. (2005) summarises the nature of each stage.

<i>Stage</i>	<i>Description</i>
Conception & Gestation	Serious commitment to developing the venture Resource acquisition to support the venture development Activities related to the startup of the venture
Infancy & Toddlerhood	High dependence of the venture on the entrepreneur Initial revenue generating activities start to occur, yet market penetration not strongly realized
Childhood & Adolescence	Increasing independence of the business given more human capital is being added to support its growth and development More consistent revenue earning activity is occurring, with the venture beginning to become profitable. Requirement for more complexity as regards systems and processes leading to a developing of the ventures culture.
Maturity	Transition to professional managers albeit that the entrepreneurial founders are still involved. Consistent profitability with growth occurring. Realistic market share being achieved demonstrating the 'coming of age' of the venture.
Exit	Entrepreneurial exit. This could be either positive, in terms of value accretive exit by way of trade sale or similar, or negative by way of liquidation through poor performance.

Given that it is likely that the positive psychology of an entrepreneur is generally considered to be dynamic, examining optimism at varying defined stages of a ventures exploitation phase is likely to be more appropriate and relevant. Therefore we have broken the exploitation phase into five stages, namely: conception & gestation, infancy & toddlerhood, childhood & adolescence, maturity, and exit.

The emotion and behaviour of the entrepreneur

In entrepreneurship research the impact that the founder, or entrepreneur, has on the new venture creation process cannot be understated. The reality of many new ventures is that the performance of the venture is closely linked to the behaviour of the founder because of the strong emotional and behavioural bond between the founder and their venture (Coelho, De Meza, & Reyniers, 2004). The significance of the emotion of the individual entrepreneur is persuasively acknowledged in Cardon, Wincent, Singh and Drnovsek's (2009) recent conceptual paper. The authors have claimed that research attention must be directed towards understanding the passion of the entrepreneur to facilitate a deeper understanding of the nature of the relationship between the entrepreneur and the success of the new venture. Cardon et al.'s proposed focus on exploring the emotion of the founder resonates with previous research which has demonstrated that founder motivation for starting new ventures is more closely aligned with non-monetary rewards (Alstete, 2008), and that entrepreneurs are passionate about their business pursuit. Such a strong emotional foundation for the individual embarking on an entrepreneurial journey further personalises the relationship between the new venture and the founder and suggests that to fully understand the success or failure of a new venture the behaviour and emotion of the individual entrepreneur needs to be analysed.

The decision to explore and exploit an opportunity may be classified based on the 'amount of uncertainty perceived' (Shepherd, 2006, p.136) by the founder and the degree to which the founder, as an individual, is prepared to take on the risk involved. Indeed, it is the perception by the individual that may provide the catalyst to pursue an opportunity.

The importance of examining the emotion of the new venture founder has been articulated in both conceptual and empirical entrepreneurship research (e.g., Cardon et al., 2009, Hmieleski & Baron, 2009). Theoretically, emotion based explanations have been used to reason why new venture founders display behaviours such as unconventional risk taking, extreme focus intensity, and an unwavering belief in his or her dream (Cardon et al., 2009). Positive emotional states such as optimism, hope and resiliency have been reported in empirical research of successful leaders of high-technology new ventures (Peterson, Walumbwa, Byron, & Myrowitz, 2009). The pursuit of a new venture despite potentially daunting obstacles is suggested by Hmieleski and Baron (2009) as being the result of the individual entrepreneur being high in dispositional optimism. Indeed previous empirical evidence has found that dispositional optimism is a defining characteristic of entrepreneurs involved in founding new ventures (Cooper, Woo, & Dunkelberg, 1988).

However, the generally perceived positive emotions of passion and high levels of dispositional optimism within the entrepreneur create a tension that is potentially both a benefit and also a burden for entrepreneurial success. Excessive levels of optimism may lead to a negative impact on new venture success. Scholars have argued that simply possessing a great passion for a new venture and having dispositional optimism does not guarantee new venture success (Crane & Crane, 2007). Indeed, empirical research has found that entrepreneurs have expressed high levels of optimism irrespective of their preparedness to lead the venture (Cooper, et al., 1988). Hmieleski and Baron's (2009) recent research, adopting a social cognitive perspective, found that entrepreneur optimism negatively impacted on new venture performance. Hmieleski and Baron have thus recommended that more research attention needs to be directed towards exploring the influence of individual entrepreneur emotional states, such as optimism, on new venture performance.

The psychological capital model

The emergent field of positive psychology is contributing to the development of knowledge relevant to positive emotional states such as optimism, recognising that such

elements within the individual can enhance organisational performance (Quick, Cooper, Gibbs, Little, & Nelson, 2010). Luthans, Youssef, and Avolio (2007) have consolidated and extended the theorising developed in the early positive psychology movement and proffered a Psychological Capital (PsyCap) model. The model is an integrated conceptual framework used to explain individual psychological capital and workplace return on investment outcomes such as efficiency (e.g., return on investment) and effectiveness (e.g., growth). Within the PsyCap model optimism is recognised as a psychological capacity, together with the psychological capacities of efficacy, hope and resilience. We contend that this model is of value for exploring the nature of entrepreneurial emotion and behaviour across the new venture creation process as it is an empirically validated framework which incorporates standardised measurement of the psychological capacities.

The PsyCap model of Luthans et al. (2007) thus provides the current study with a model that can examine the impact of entrepreneurial optimism and other emotional and behavioural elements such as efficacy, resilience and hope across the new venture creation process. As explored previously, the challenge with entrepreneur emotions and behaviour is that when a negative event occurs, the response may be emotionally based and related to their dream pursuit or passion (Cardon et al. 2009), rather than a rational decision based on objective analysis of the evidence. The emotionally based decision potentially further compounds the situation or problem being faced.

Entrepreneur optimism

Given that new ventures often emerge in new or previously unexplored markets, developing new products and technologies that may not have historical bases from which to found decisions (Coelho et al., 2004, Ottesen&Gronhaug, 2006), positive emotional states such as optimism may provide the new venture founder with the necessary expectation of achieving desirable outcomes (Carver &Scheier, 2005). Entrepreneurs have reportedly demonstrated a greater tendency towards excessive optimism in comparison with non-entrepreneurs (Ucbasaran, Westhead, Wright, & Flores, 2010). Therefore, positive psychological emotions such as optimism may be critical in providing

the motivating behaviour to enable the individual entrepreneur to persist through the opportunity discovery, evaluation and in particular the exploitation phases of the new venture process. In addition to optimism, Peterson, Walumbwa, Bryon and Myrowitz (2009) demonstrated that resiliency and hope were also important in new venture businesses. Peterson et al.'s study of 121 technology firms reported a positive predictive relationship between CEO optimism, resiliency and hope and subordinate ratings of transformational leaders. Moreover these transformational leaders had a stronger and more positive effect on the performance of start-up organisations in comparison to established firms.

However, there also appears to be a potential downside to an excessive level of entrepreneurial optimism. Excessive optimism in the entrepreneur has been suggested by some scholars as the primary reason for the high incidence of new venture failure (Gartner, 2005). The challenge with excessive optimism is that it may contribute to poor or irrational decision making (Palich & Dagby, 1995). Many new venture founders have a lack of experience or contextual information regarding both the venture and the market in which it may operate. Excessive optimism may accordingly permit the development of ineffective behaviours such as 'unchecked fantasising' (Coelho et al., 2004, p.397). Decisions and actions may be made or taken without reference to a clear perspective or an understanding of reality. This can negatively impact on new ventures in a number of ways and may include difficulty in securing financial support or the necessary physical and human resources to ensure venture success.

From a financing perspective Landier and Thesmar (2005, p.1) suggest that "optimists self-select into short term debt whilst those with a more realist orientation self-select long term debt". The excessive optimism of new venture founders may therefore contribute to the loss of appetite by new venture sector financiers, and could have significant implications for future economic growth. The findings of research by Puri and Robinson (2007) support the hesitance of the financial sector, with the extreme optimists in their study displaying financial habits that were not considered prudent. Furthermore it seems that over optimists may also have short term planning horizons (Puri & Robinson, 2007) indicating a potential focus on immediacy rather than the 'big picture'. As much as this

may impact strategy and decision making, it also has potential significance in respect of new venture funding requirements. Given that the funding provided by way of venture capitalists is extremely limited, the ability to encourage and provide more effective confidence to financiers is critically important. Palich and Bagby (1995) found that excessive optimism by entrepreneurs lead to an underestimation of the riskiness of their venture. Once again these findings support the need for more research investigating the notion of excessive optimistic behaviour in entrepreneurs.

Theoretically, optimism has been described and assessed in a number of ways including links to mood and morale, tenacity and perseverance, effective problem solving, personal and business success (Luthans, 2002; Peterson, 2000; Seligman, 2006). Using Seligman's explanatory style definition, an optimist is defined as someone who expects positive and desirable events in the future, as opposed to a pessimist who constantly has negative thoughts and expects undesirable things to happen. Psychological research further asserts that optimism exists on a continuum, and thus different levels of optimism may be observed. Interestingly, although differences may exist in optimism levels, the boundary between what is realistic and what is excessive in optimism is still unclear (Schneider, 2001). Seligman has also argued previously of the ability of pessimists to make more objective decisions.

Optimism is argued to have both state and trait aspects (Kluemper, Little & DeGroot, 2009). Trait optimism refers to stable individual levels of optimism that are generally exhibited, whereas state based optimism is that which is influenced by contextual or situational factors. The recognition that optimism has state characteristics is important, as potentially negative influences through excessive optimism may be managed and reduced (Seligman, 2006). Therefore, if excessive optimism is identified in entrepreneurs then intervention programs can be designed to facilitate the development of realistic levels of optimism within these new venture founders.

Given the likelihood of new venture failure, it is clear that entrepreneurs or new venture founders initially need to have an optimistic perspective to direct and maintain their motivation (Lowe & Ziedonis, 2006). However, there is perhaps a difference between a

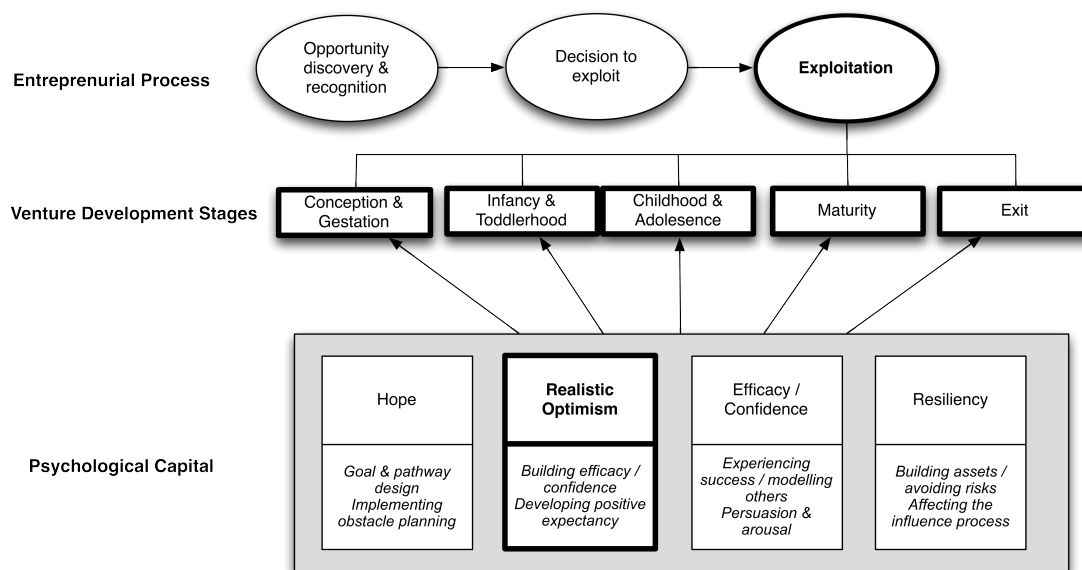
level of optimism that is appropriate to motivate and direct entrepreneurial effort and a level of optimism fuelled by the founder's passion for his or her venture which could be considered excessive and contribute to poor business decisions. In short, we suggest that realistic optimism may have positive consequences for the new venture creation process and ultimately improve the chance of new venture success, whereas excessive optimism may be linked to excessive risk taking and poor decision making and thus may have the opposite effect on the new venture outcome and negatively impact new venture success.

The proposed conceptual model

As previously contended, we have used the three stages of the new venture creation process by Shane and Venkataraman (2000) as a macro explanation of the distinct elements of the entrepreneurial process. Given the focus on exploitation we have further broken the model down based on the stages proposed by Cardon et al. (2010). Although it can be argued that the stages are not necessarily linear, new ventures do have a life cycle that can be distinguished by differing characteristics and tasks within the cycle. We contend that effectiveness across the new venture process will be enhanced if the entrepreneur is able to invest the appropriate psychological capital at each stage of the new venture process. The psychological capital model is thus integrated with the entrepreneurial process model to assist in the generation of specific propositions for future empirical examination.

We assert in this paper that relationships exist between the identified psychological capital elements of efficacy, hope, optimism, and resilience across the stages of the entrepreneurial new venture creation process. The four psychological resources presented in the psychological capital model originated with different theoretical perspectives and definitions yet encompass an empirically validated common positive psychological construct (Luthans et al., 2007). Summarily the psychological capital model measures, efficacy or the confidence that an individual has about his or her ability to successfully execute a task in a given context, hope which is a motivational state based on a perceived sense of success, optimism which, as defined previously, is the expectation that the

individual will incur positive desirable future events, and resiliency or the ability of an individual to rebound from adversity or failure (Avey, Luthans & Youssef, 2010). The proposed relationships between the elements of the psychological capital construct and the entrepreneurial process stages are represented in the following diagram.



“Entrepreneurship is a dynamic process of vision, change and creation. It requires the application of energy and passion towards the creation and implementation of ideas and creative solutions. Essential ingredients include the willingness to take calculated risks...the ability to formulate an effective venture team; the creative skill to marshal needed resources; the fundamental skill of building a solid business plan; and finally the vision to recognize opportunity where others see chaos, contradiction and confusion” (Kuratko & Hodgetts, 2004, pg. 30). The next section of the paper will draw upon previous research findings from investigations examining the emotion and behaviour of entrepreneurs across the three dominant stages of the entrepreneurial process. Unfortunately much of the previous research is cross-sectional in nature and therefore the stage of the venture during which the data were collected is largely unknown.

Opportunity exploitation

The first stage of the new venture creation process requires that there is recognition that an entrepreneurial opportunity exists. Such recognition as argued by Shane and Venkataraman (2000) is a subjective process, as the variety of options and the potential consequences of exploiting those options are unknown. Moreover, Shane and Venkataraman further contend that people make decisions “on the basis of hunches, intuition, heuristics, and accurate and inaccurate information” (p. 221). While there is little argument that people (i.e., entrepreneurs) make decisions on the basis of many reasons, decision making is not a completely rational and cognitive process, with some authors suggesting that rational decisions afford a bad basis for action and that some irrationalities are necessary (Brunsson, 1982).

A comprehensive meta-analysis of the relationship between personality to entrepreneurial intention recently conducted by Zhao, Siebert, and Lumpkin (2010) identified that risk propensity was moderately related to entrepreneurial intention although it was not significantly related to entrepreneurial performance. The authors have suggested that their findings demonstrate that risk propensity may vary across the stages of entrepreneurship and that it is more likely to be evident during the early stage of the entrepreneurship process. Such results provide additional support for the contention of this paper that more research on the impact of individual entrepreneur emotions and behaviours is necessary across the different stages of the new venture creation process.

The emotional resources called upon by the entrepreneurs to make decisions surrounding the opportunity or discovery may well be facilitated and fuelled by the entrepreneurs’ hope, efficacy and optimism. The previous review of entrepreneurial optimism has demonstrated that entrepreneurs are higher in excessive optimism than non-entrepreneurs (Ucbasaran et al., 2010), have greater levels of dispositional optimism in comparison with others (Hmiesleki & Baron, 2009), and are more likely to report being prepared for the new venture challenge (Cooper et al., 1988). Other characteristics such as self-efficacy have also demonstrated to be significant predictors ($r=.378$) of entrepreneurial behaviour (Rauch & Frese, 2007), while hope is suggested by Morrow (2006) as a characteristic that

if developed in entrepreneurs will assist in achieving greater entrepreneurial success.

After seizing upon an opportunity, the entrepreneur needs to then determine whether the opportunity is worthwhile in pursuing. Although figures on the number of opportunities that are discovered and the number of those discovered opportunities that are attempted to be realised are not known, it is reasonable to presume that a great many ideas and innovations are not progressed further. The evaluation of an entrepreneurial opportunity and the decision to attempt to exploit a discovered opportunity is suggested by Shane and Venkataraman (2000, p. 222) to be a function of the “joint characteristic of the opportunity and the nature of the individual”. The authors argue that in addition the nature of the venture and the ability to raise capital, individuals who are optimistic, have greater self-efficacy, stronger internal locus of control, greater tolerance for ambiguity, and a more dominant need for achievement are more likely than other members of society to make the decision to exploit the opportunity.

Proposition 1: Psychological capital elements, such as passion, hope, and efficacy influence the level of optimism displayed by entrepreneurs, at the conception and gestation phase of exploitation, therefore positively impacting on the likelihood of moving to the next phase of the new venture process.

In contrast to the above perspective and offering a challenge to the levels of optimism in entrepreneurs, a recent article in Strategic Directions (2010) suggests that many new ventures have faltered during the early stage of creation because the venture was the “brainchild” (p. 7) of an excessively optimistic individual entrepreneur who neglected attention to detail, had no contingency plan or did not recognise the need for caution. The findings reported in Hmiesleki and Baron’s (2009) paper also suggest that entrepreneurial optimism can have a negative impact on new venture success. When generating examples of behaviour to illustrate their conceptual model, Luthans et al., (2006) have also suggested that future research on entrepreneurial hope, efficacy and optimism could clarify whether there is the possibility of “too much a good thing” (p. 80).

Proposition 2: If the individual entrepreneur displays excessive optimism at the early stages (conception and gestation phase, infancy and toddlerhood) of new venture

exploitation, then the chance of the new venture moving to the next stage of the development process is decreased.

Shane and Venkataraman (2000) hastened to add in their paper that the individual attributes which were suggested as increasing the likelihood that an entrepreneur would attempt to realise an opportunity did not logically increase the probability of the new venture being a success. In contrast, as an example, they suggested that excessive optimism “might be associated with a higher probability of both exploitation and failure” (p. 224). Indeed a recent study indicates that even practiced entrepreneurs who have experienced a failed venture, although tempered in their level of comparative optimism (i.e., excessive optimism) they were still optimistic about the new venture. The research also reported that the way in which comparative optimism influenced experienced entrepreneurs very much depended upon the nature of the past experiences, to the extent that those who had no experienced business failure were still “more likely than novice (or first time) entrepreneurs to report comparative optimism” (Ucbasaran et al., 2010, p. 2).

Proposition3: If the individual entrepreneur displays excessive optimism at the childhood and adolescence stage of new venture exploitation, then the chance of the new venture successfully moving to maturity is decreased.

The final stage of the entrepreneurial process as suggested by Shane and Venkataraman (2000) is the organisation of the new venture into the economy. Two dominant institutional arrangements are suggested, i.e., new firm creation or the sale of the opportunity into an existing firm. Research evidence for the impact of the individual entrepreneur emotion and behaviour during this stage is limited, with the focus of research examining the ability of the individual to secure financing, first mover advantages, and barriers to entry and so forth. However, we argue that at this stage of the entrepreneurial process that the emotion and behaviour of the individual entrepreneur will continue to impact of the success or otherwise of the new venture. At this stage of the new venture creation process, we expect that hope, realistic optimism, efficacy and resiliency are needed.

In an examination of the self-efficacy and optimism of a small sample of Australian

entrepreneurs, Trevelyan (2008) found that the concepts of optimism and self-efficacy were distinctive. The author reported that both self-efficacy and optimism were required during the early phases of the new venture when the individual was deciding upon becoming an entrepreneur, but that over confidence (i.e., high levels of self-efficacy) was harmful during the decision making phase of the new venture. Trevelyan concluded that what is needed in future research is a clarification of when during the entrepreneurial process is optimism beneficial and when is excessive self-efficacy harmful.

Some studies have demonstrated that entrepreneurial optimism may reduce over time or with experience. For example, based on an economic modelling approach applied to data collected through the British Social Attitudes Survey, Fraser and Greene (2006) identified that in comparison to employees entrepreneurs were more optimistic and had greater belief in their ability (i.e., self-efficacy) although the level of optimism diminished with experience of new business establishment. The authors suggest that the results provide evidence to improve the education process for nascent entrepreneurs to assist in them with a more accurate forecast of future business performance. In another economically founded paper, de Meza and Southey (1996) found that optimists were more likely than pessimists to pursue financing their business venture. Not only does excessive optimism impact negatively on the new venture (Hmiesleki& Baron, 2009), Trevelayn (2006) argues that in the final phase of the new venture when formal systems and structures are required to be put in place, an entrepreneur high in self-efficacy may find an “inability to let go, as the overconfident entrepreneur does not believe anybody else can perform as well as him/herself” (p. 996).

Proposition 4: If the psychological capital element of realistic optimism is present in the individual entrepreneur at the maturity phase, then the chance of the new venture surviving is improved.

CONCLUSION

The position taken in this paper is that excessive entrepreneurial optimism can potentially be shaped and influenced. Indeed, in order to achieve objectives such as effective capital raising and the like, optimism may need to be managed so that it is reflected at appropriate levels. Psychological capital provides an integrated framework to consider the broader human capital elements in which optimism is anchored. The other psychosocial capital elements, hope, self-efficacy and resiliency may mean in reality, it is difficult to separate the specific role that varying levels of optimism play in the venture creation process.

The need to manage and identify moderators of excessive optimism has not previously been an area of focus in the entrepreneurship field (D'Intino et al., 2007, Crane & Crane, 2007). Although recent empirical evidence by Hmiesleki and Baron (2009) and theoretical work by Cardon et al. (2009) has identified the importance of this area of enquiry, suggesting that excessive optimism may be linked to the difficulty of generating new venture success. The evidence indicates that whilst positive entrepreneurial states like passion and optimism have contributory value to the success and development of new ventures, a lack of moderators to regulate the negative consequences of irrational decision making can mean that the new venture struggles to meet its performance objectives.

Consequently there is a fundamental gap that exists in the empirical research examined with respect to the impact of excessive entrepreneurial optimism across the new venture process. Given that optimism has state based characteristics it is plausible to suggest that the entrepreneur may experience varying levels of optimism across the life cycle of the new venture, thus longitudinal based research is warranted. The ability to both generate a better understanding of entrepreneurial optimism and to provide techniques and tools that assist with the management of optimism could have a significant economic and social impact through the extended survival rate and growth of new ventures. The model proposed in the current paper will also help advance the empirical and theoretical work currently being conducted on the impact of excessive optimism of entrepreneurs on new venture performance.

Entrepreneurial activity and new ventures are known to make an important contribution to the overall economic well-being of a society both in terms of the direct financial impacts as well as indirect and other downstream benefits. The entrepreneurial process is a complex interplay between the nature of the new venture, the creation process and the emotions, behaviour and skill of the new venture founder or entrepreneur. The current paper has proposed a conceptual model to integrate the macro level processes occurring across the life cycle of the new venture creation process with the micro level individual differences evident in the emotions and behaviours of entrepreneurs. The propositions offered are designed to provide the impetus for empirical examination to enable a deeper understanding and greater insight to be developed regarding the important yet complex phenomenon of entrepreneurship.

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